

Getting Ready for your Year End Accounts



*This was originally sent out as a series of weekly email messages.
If your year-end is not March 31 you will need to translate dates.*

Introduction

It may have slipped your attention, and we will forgive you if it did, but we are now in a new tax year. It's no cause for alarm though. We aren't ready to begin work on your year-end accounts just yet, but I thought that it would be good to remind you of a few things that you could start working on over the coming weeks, while it is still fresh in your mind (we know that it can often be difficult to remember everything months later, that's why we're starting early).



Now please keep in mind that not everything in this guide will apply to you. So if we ask you to get something together that you know doesn't apply to you then please simply ignore it. If you're not sure, just drop us an email or give us a call.

And finally, PLEASE don't send stuff to us drip-feed! We simply can't handle it all coming in piecemeal. Please collate it all together in a box or in a folder on your computer – and hold it there until we ask for it. When you have it all together please call or email us. We will let you know when we are ready to begin.

When we are ready to begin we will send you a formal questionnaire. Our work begins once we have received the responses to the questionnaire (which will cover all the details in this document). We usually allow for 4 weeks for our team to review your responses and compile your draft financial statements and tax returns. Our ability to meet this deadline is very dependent on you meeting your obligations. We request that you respond to any requests within two working days. If you don't our time line is likely to slip.

Stock-take



If your business has material that is consumed in the process of earning income (manufacturing or anyone with consumable supplies) or you purchase goods for resale (retailers) then you should do a stock-take at the end of business on 31 March. You should make sure that you have planned to count your inventory as close to March 31 as possible. It's OK to count over the preceding weekend as long as we can estimate stock in and out for the last days of the year. If you count too early or too late then it's more difficult to "roll forward" or "roll back" to the balance date. If you have a perpetual inventory system that keeps an active count of stock on hand then try to count a chunk every day and post corrections before the end of the

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month. If you count after year end you will need to back date your adjustments - so keep good records.

If you deliver service or are a tradesperson you should also think about unbilled work – do you have stock on a customer’s site that you are in the process of installing? Do you have a job that is 50% complete but won’t be invoiced until April? All these things need to be noted down.

Debtors

The next thing I want you to look at is to look for missing Debtors. No, not the deadbeats who have stopped answering your phone calls – that’s a whole other kettle of stinky fish! I’m talking about work you did in the last tax year (up to March) that you hadn’t been paid for. The Income Tax Act requires that we use “accrual accounting” to prepare your accounts. One of the implications of this is that we must treat as income any amount that you have already earned.

If you are a Xero Business edition user I hope that you are using Xero to enter your sales invoices on account (not necessary for cash sales). If you are dating these invoices correctly then you should be almost done.

If you are not using Xero Business edition (you may be using the Cashbook edition or we may prepare you accounting records for you at the end of each year) for your sales invoices and you have any unpaid sales at the end of March then you should make a list of any invoices you had issued by the end of March that had not been paid, or just anyone that owed you money from sales. One useful thing you can do here is to look at your bank statement for the weeks after year-end and see who paid you. Some of those deposits may well relate to March or earlier. You should make a list of the invoice numbers, customer name, and amount of any debtors (not already in Xero). If you break your revenue down into separate lines (i.e., it doesn’t all get listed as “Sales”) then you should subtotal this list by type.

Here are a few other related things that I would like you to sort out now as well please, if they apply to you:

- **Unbanked Sales:** If you had any Cash on Hand (such as a Till Float) or any unbanked sales at 31 March please total that up and note when it was banked.
- **Work in Progress:** If you do services (consultants, tradesmen, etc.) and have done enough work to entitle you to bill, but haven’t issued the invoice, please make a schedule of all jobs in progress at 31 March and the amount of unbilled time or cost.
- **Prepayments:** If you have received funds in advance of any sale (deposits, laybys, account overpayments, etc.; and they are not already recorded as prepayments or overpayments in Xero) then please make a schedule of these.
- **Gift Vouchers:** If you have sold any gift vouchers that have not yet been redeemed at 31 March please make a list of these and total it.

People often ask about **Bad Debts** here. IRD rules require that debts can only be written off for tax purposes in the tax year that this is recorded in the ledger (or a decision to do so is documented). So



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if you're looking at your list now and thinking that you've got a couple of dead-beat clients in there then we can't do anything about that now (for the last tax year). If you made a list of doubtful debts before the end of the year then collate that for us (along with the evidence of how you documented the date of the decision).

Unreimbursed & Home Office Expenses



Do you want to build a snowman? I just can't seem to get the song jingle from the movie "Frozen" out of my head. I haven't actually seen the movie myself, but my kids can't stop singing it! It's driving me crazy!

Sorry – I got off track. Do you want to go on a treasure hunt? We routinely find that business owners forget to claim all the expenses that they are entitled to claim. When this happens they might as well flush about 40c in every dollar down the drain because that is what they are giving up by failing to include them in your year-end accounts. It's pure gold I tell you! So let's go hunting for treasure.

Unfortunately, most business owners aren't as diligent as we'd like them to be when it comes to recording their business expenses. It's not uncommon for expenses to be paid in cash (out of the owner's pocket), by a spouse or on a personal credit card – and then they are quickly forgotten.

I recommend that you go through your personal bank account, personal credit card, paypal account and any other place where you might find hidden business transactions (yes, even those parking receipts that are stuffed down the back of the sofa – right next to the chewing gum).

Please make a schedule of the date, vendor, amount, purpose, method of payment and whether it is GSTable. We are going to need to enter these in with some detail. You can ignore anything that was reimbursed through your business bank account (as long as it didn't look like drawings), but if you're not sure write it down and leave a note beside it.

While you are at it, let's make a list of all Home Office expenses as well. Unless you know that we aren't going to claim Home Office expenses, you want to include anything that was paid from 1 April last year to 31 March this year for the following:

- Rent on your house (if renting)
- Rates, including water rates, regional rates, etc., but exclude anything like heating equipment loan repayments
- Power (electricity and gas)
- Home Telephone & Internet (but exclude TV and personal subscription services)
- House and Contents Insurance
- Rubbish disposal
- Repairs and Maintenance

Again, make a list and total each category.

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Just a friendly note: we don't really want to see all these receipts. If you drop them off to us for us to sort out there will be additional charges!

Bank Transactions/Reconciliations

I hope that you've been following our advice and [staying schizophrenic](#) when it comes to our business financial transactions and keeping them in a separate bank account. Because your objective this week is to ensure that we have all the data that we need to begin the process of creating your year-end accounts. Preparing your annual accounts and tax returns depends on complete and well-coded bank data – but that is only the beginning. So it's very important that this step be done well and completely, so checking bank reconciliations is the very first thing we do when we begin work on any year-end file. If we find that the bank data is not balanced or is incomplete, we can't proceed. This always leads to delays.

Monthly Bank Statement

24 HOUR TELEPHONE TRANSFER LINE - 122-5678
CUSTOMER SERVICE NUMBER - 807-1234 EXT 296

DEPOSIT ACCOUNTS
DEBIT CHECKS
REGULAR CHECKING
ACCOUNT
SOC. SEC.

THIS STATEMENT SHOWS ALL ACCOUNT TRANSACTIONS FROM SEP 14 1977 - THRU OCT 12 1977

DEPOSITS		CHECKS AND DEDUCTIONS				DAILY BALANCES	
DATE	AMOUNT	NO	DATE	AMOUNT	DATE	AMOUNT	
9/19	100.00	4882	9/15	32.00	9/16	2832.45	
		****			9/16	2593.45	
					9/19	2693.45	
9/28	288.00	4885	9/18	28.95	9/28	2982.45	
		4886	9/28	10.00	9/28	2882.45	
		****			10/2	2922.45	
		4888	10/2	40.00			

**** INDICATES ONE OR MORE MISSING CHECKS

BEGINNING BALANCE	DEPOSITS & CREDITS	CHECKS & DEBITS	ENDING BALANCE		
9/14/77	NO	AMOUNT	NO	AMOUNT	10/12/77
2566.40	2	359.00	4	111.95	2822.45

ENCLOSURES: 8

If you are a Xero user you need to ensure that your reconciliations are up to date to at least March 31 (but we actually recommend that you get fully reconciled now as we may need further data from the months after year-end). If you are GST registered then this should have been done when we did your GST return – but please check for stray transactions or errors on all accounts. The easiest way to do this is in Xero to run a Bank Reconciliation Report – you can get to this from either the Bank Account's "Manage Account" menu or from the Reports – All Reports menu. For some pointers on common problems in the bank reconciliation and how to fix them please check out the [blog entry here](#). If your bank accounts are not completely reconciled there may be additional charges as we have to complete this process before we can start the rest of the process. If you notice now that you need help please contact us sooner, rather than later. We are experts at sorting out bank reconciliation problems!

If you are not using Xero and are not GST registered then we probably haven't got your data yet. To help get the data ready for us you should download the data from your bank. We will need data for 1 April (last year) to 31 March (this year) for all bank accounts. We recommend that you choose CSV file format. Please make sure that you rename the exported files so that we can tell what account they belong to. Next, you need to open the CSV file in a spreadsheet programme (like Microsoft Excel) and add notes to a spare column right after the bank data with comments that will help us code the transactions. Unless you tell us otherwise we are going to treat each deposit as a sale and treat all payments as business expense using the most appropriate category based on the details from the bank statement. If the bank statement isn't sufficient, or the transaction is personal) you should give us more detail so that we don't have to ask you.

If you have very low volume or are not keeping your business transactions sufficiently separate from your personal transactions then we may not be able to use the bank feed data. In this case we need a complete list of all your business transactions, listing date, payee/payer, amount and a description of the purpose. We have a template you can use to catalog these – please contact me to ask for it.

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Please also check to see if you have opened any new bank accounts during the last tax year. If you have please make sure that we have these accounts in Xero if you are using it. Call us right away if you are not sure if we have all the right data. Don't forget to include credit cards you use exclusively (or mostly) for business purposes (if you intermingle your business and personal purchases on your personal credit card then it is better to just give us a list of the transactions).

Finally, we are going to need to see a copy of the year-end balance of all bank accounts and credit cards included on your accounts – preferably from a statement. It needs to show (or be able to calculate) the date and the closing balance as at 31 March. Many of us are no longer receiving paper statements, so check your on-line banking for PDF versions of the statements. If the bank gives you a balance summary of all your accounts on one page then this is perfect! If you don't have any form of paper or electronic statement, then a screen shot of your online banking may show us the balance at year end. If you're not sure please call.

Documents to Collect



We try to be a paper-less office (yes, even though I own a printing business). We don't like stacks of papers sitting around any more than we have to. But this week - it's time for a paper chase!

Because we do as much as we can online we really don't want to see all your invoices and paper records. In fact, we ask that you NOT send them in to us! However there are a few things that we need you to hunt down and collect that will make it easier for us to complete your year-end accounts. Here they are the business documents that we need:

- Bank statements for all business bank accounts showing the balance at 31 March (we don't need the whole year – just the one page that shows the 31 March balance. If the bank sends you a summary of all accounts then this page will do just fine)
- Copies of all invoices for legal expenses incurred during the year
- Your Employer Monthly Schedule (IR348) for all months in the year and the EDF (IR345) sent to IRD in April this year (if you are an employer)
- Copies of any new lease, hire purchase or loan documents that we haven't already received

There are a few personal documents that are useful as well:

- Donation receipts
- Annual Interest certificates from financial institutions
- Interest for the year on your home mortgage (let us know if any of the mortgage was used for debt consolidation, equipment purchases or other non-house stuff)

I hope that you don't feel like that guy from The Office with the post-it notes all over him!

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Creditors

No one likes paying tax – not even me. But what’s worse than paying tax is paying TOO MUCH tax! Our goal is to help you pay the lowest tax legally possible. Our tax system requires that businesses file their tax returns on an “accrual” basis – this means that we must generally include transactions in the tax year to which they actually relate, even if they weren’t paid or settled until the next tax year.



This means that we have to include sales that you haven’t been paid for yet (we covered this a few weeks ago), but also means that we can include expenses you have incurred but haven’t yet paid. So this task is to make sure that we have all the information that we need to ensure that we are claiming as many expenses as we can that relate the last tax year.

If you are a Xero Business edition user you have the ability to enter your Supplier Bills into Xero. If you have been doing that for ALL of your bills correctly then there should be nothing left to do (go home early, grab a glass of wine, and put your feet up!). But if you know that not all of your bills are entered as bills (i.e., there are some bills that you only enter when you pay them) then you should continue...

Otherwise, what we need from you is a list of unpaid bills at 31 March. By now you would have paid most of these (this task is best done after the 20th of June) so you should have already coded them in your bank reconciliation screen in Xero (if applicable). To identify them:

- Complete your bank reconciliations (especially the outbound payments) in Xero
- Go to Reports, All Reports and click on “Detailed Account Transactions”.
- Change the date range to start at 1 April (and end today or the end of May) and click “Update”
- Export the report to Excel
- Open the report in Excel review the report. Highlight any line that you know relates to the previous tax year. Feel free to add comments in the column past the right edge. Most of the transactions that you are looking for will have the type “PAY”. You can ignore the first part of the list covering income as you should have given us this a few weeks ago.

If you’re not a Xero user then the easiest thing to do is go through your bank statements and identify all payments out that relate to March or earlier. Make a list of the date, vendor, amount (including GST), purpose (so that we can code it correctly) and any additional comments.

That should have caught most creditors. Please also make a list of any creditors that you are still behind payments on. If you have statements from 31 March or other documents that will help us determine what the correct balance was at 31 March you should hold those documents as well.

I hope that doing this doesn’t get you too depressed. Just think about the expense deductions you’re finding to keep you tax bill down (OK, not everyone gets excited by that either – but work with me here).

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Motor Vehicle



We all know that running a vehicle these days is very expensive. So if you use a vehicle in any way for business purposes then you may be able to claim additional expenses for your motor vehicle use.

We've [written previously on 3 different methods we can use for handling motor vehicles](#) (company ownership, share of use, and mileage) on our blog – and I suggest that you quickly read this now as a refresher. Apart from company ownership, we can change the method we use year by year, so it's a good time to look back, but also look forward.

If you trade through a company and the car is in the company name, then you should have already included all the motor vehicle expenses in your business bank accounts. If you have paid any MV expenses personally please make a list, verify that you haven't already claimed them, and have that ready for us. In most cases where we use company ownership we have to file Fringe Benefit Tax returns on the availability of personal use of the vehicle. We need to know the number of days that the vehicle was unavailable for personal use (usually because it was in the shop being repaired, out of town on business, or otherwise un-drivable). If you trade through a company and the vehicle is owned by the company then you can stop reading now – the rest of this assignment does not apply to you.

Still with me? That means that you are using your personal vehicle for some business use. The next step starts with assessing your business mileage on the vehicle. If you have done a 3-month log book within the last 3 years that you are all set (you will be using the "Share of Use" method). Otherwise, we need to document your mileage in a log book ([see here for guidance on how to do that](#)). If you already have one, fantastic! If you don't have a log book (or it's not complete) then you really are making our job harder! I recommend that you sit down with your diary and go through the last year and honestly check your records and fill in any blanks you have. It is acceptable to do a 3 month log book only, but we also need to know the total mileage of the vehicle in that period to determine the portion of business use.

The next step is to ensure that we have recorded all your MV expenses correctly. If they have already been put through your business bank accounts then you're probably OK. But have a think about any of the following that you may have paid personally:

- Petrol
- Oil changes
- Wheel alignment
- Registration
- Insurance
- General maintenance and repairs

Here are some things that we can't claim:

- Your personal driver's licence

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- Parking fines
- Speeding tickets and other traffic infringements (even if you were on business)
- Costs of repairing the vehicle from an accident while not on business (if caused by general mechanical failure then include it in general maintenance for share of use, if on business then 100% claimable)
- General purchases from the petrol station or cash back on your EFTPOS card

So check that we have all the right details. If you are not sure what approach you should be taking (and especially if you want to start a 3 month log book) feel free to call.

Pretty Much There

Congratulations – we have reached the end of this process! I really do hope that you have been able to keep up and do the work assignments bit by bit over the past several weeks. I'd also appreciate your feedback on these emails and how helpful they were to you.

Every client is different, so we have focussed on the most common things that we need from our clients. There may well be other things that we need to get from you. If you remember from last year that we asked you for something then there's a good chance we are going to ask you again. So why not grab it now and set it aside with everything else. We are very likely to have more questions, but we will be in touch later with any of these.



Please do not send us your files just yet! They will just clutter up the office and we don't want to risk losing them. If you feel like you have got everything together and would like us to expedite your accounts please let me know. We will put you on the list and we may be able to squeeze you in early if our workflow permits (it is on a first come, first served basis).

So that's it. Thanks so much for sticking with me. If you have any questions please don't hesitate to call us.